



CITY OF SAN JOSÉ, CALIFORNIA

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August 25, 1986

Honorable Mayor and Members
of the City Council
801 North First Street, Room 600
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Transmitted herewith is a report on the Audit of Purchasing Operations. This report is in accordance with City Charter Section 805(a).

An Executive Summary is presented on the blue papers in the front of this report while the Administration response (General Services Department) is shown on the yellow pages after the Attachments.

I will present this report to the Finance Committee at its September 15, 1986 meeting. If you need additional information in the interim, please let me know. City Auditor staff who participated in the preparation of this report are Mike Edmonds, Fred Casuga and Tim Drowne.

Respectfully submitted,

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OFFICE OF THE
CITY AUDITOR

**A PERFORMANCE AUDIT OF
PURCHASING OPERATIONS**

A REPORT TO THE
SAN JOSE
CITY COUNCIL

AUGUST 1986

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EXECUTIVE SUMMARY

Our review evaluated the timeliness of the City's purchasing process. We found the Department of General Services' Materials Management Division (Purchasing) could improve the timeliness of the process. Specifically, we found the following:

- o Opportunities exist to significantly improve Purchasing's responsiveness to purchase requisitions;
- o Purchasing needs to improve its monitoring of vendor performance;
- o Purchasing can reduce Central Warehouse processing time and operating costs; and
- o Purchasing needs to modify its performance goals and its management reports to adequately evaluate its performance.

As a result, Purchasing is not always getting needed goods and services to departments in a timely manner.

Opportunities Exist to Significantly Improve Purchasing's Responsiveness to Purchase Requisitions

Our review found that Purchasing is not meeting its own goals for processing purchase requisitions. Purchasing's goal

is to process 95 percent of all requisitions within 20 working days. However, our review found that Purchasing only processed 53 percent of the requisitions within 20 days. Moreover, Purchasing met the required delivery date Departments specified in only 10 percent of the requisitions we reviewed. As a result, Purchasing is not always getting needed goods and services to Departments in a timely manner. Consequently, in some instances, departments have had to either go without needed supplies and equipment or they have had to make other arrangements to obtain these items. Purchasing's inability to meet its processing goals is largely the result of significant increases in its workload and the encumbrance process. However, Purchasing could significantly improve its processing time if it implemented several changes that would allow it to better manage its workload and if Accounting modified its procedures for encumbering funds.

*Purchasing Needs to Improve
Its Monitoring of Vendor Performance*

Our review found that vendors averaged 37 days to deliver orders to the City. In addition, vendors failed to meet their promised delivery date on nearly 60 percent of the orders we reviewed. As a result, departments must wait longer than

necessary to obtain items they requested. Purchasing could reduce the number of late deliveries if it begins to take action against vendors that are consistently late. However, our review found that Purchasing lacks a system to monitor and evaluate the performance of its vendors.

*Purchasing Could Reduce Its Central
Warehouse Processing Time and Operating Costs*

Although Purchasing's goal is to receive shipments delivered to the Central Warehouse within two days, our review found that the Warehouse processed only 42 percent of the shipments within this timeframe and took over one month to process several shipments. As a result, Departments must wait longer than necessary to obtain items that they requested. Purchasing's receiving problems are largely the result of an increase in the number of orders which has caused backlogs in Receiving. Besides workload problems, our review identified several other factors that have slowed the receiving process. These factors are as follows:

- o Purchasing lacks systematic procedures for receiving backlogged shipments;

- o The number of "walk-ins" to fill stores requisitions has increased significantly; and
- o Slow processing of confirming purchase orders.

Purchasing Needs to Modify Its Performance Goals and Its Management Reports to Adequately Evaluate Its Performance

Purchasing's processing goal does not provide a valid measure of how timely it is processing requisitions. In addition, Purchasing management reports do not provide adequate or reliable information on its performance. As a result, Purchasing lacks the information necessary to adequately assess its effectiveness.

RECOMMENDATIONS

To improve the timeliness of the purchasing process, we recommend that Purchasing take the following actions:

Recommendation #1:

The Department of Finance should increase the Departments' petty cash funds from \$30 to \$100.

Recommendation #2:

Consider implementing the following procedural changes to reduce the number of purchase orders it types:

1. Implement a combination purchase requisition/purchase system;
2. Whenever possible, persuade vendors to accept verbal orders; and
3. Whenever possible, write in instead of typing the purchase information on the purchase document.

Recommendation #3:

Develop a comprehensive written procedures manual on the Purchasing process. This manual should, at the minimum, do the following:

1. Describe the purchasing process;
2. Instruct departments on how to prepare requisitions;
3. Provide information on the estimated processing time for requisitions; and
4. Instruct departments on how to use the Purchase Inquiry System.

Recommendation #4:

Purchasing should regularly provide training to Departments on current purchasing procedures. To ensure that staff responsible for purchasing attend the sessions, Purchasing should do the following:

- o Contact Departments to identify staff responsible for purchasing in their Departments;
- o Schedule periodic training sessions; and
- o Coordinate with all Departments to ensure that all appropriate staff are scheduled for the training.

Recommendation #5:

Accounting should modify its procedures so that it does not encumber funds for smaller purchases.

Recommendation #6:

The Administration should consider adding Buyer Assistants to Purchasing's staff should the above recommendations not produce significant improvements in requisition processing times.

To implement a vendor performance system, Purchasing should:

Recommendation #7:

Request Information Systems to program its automated system to compare the promised delivery date with the actual delivery date.

Recommendation #8:

Develop and distribute to Buyers and to Departments a form for recording instances of poor vendor performance, including late deliveries.

Recommendation #9:

Maintain a central file of complaints. The information on this file should be available to the Buyers and the City Council.

Recommendation #10:

Develop guidelines to determine when a vendor's performance should be reviewed.

To speed up the receiving process Purchasing should:

Recommendation #11:

Purchasing should take appropriate disciplinary action against vendors including suspension and debarment as a future supplier to the City.

Recommendation #12:

Increase the number of direct shipments to Departments on a pilot basis. Purchasing should use several criteria for selecting the Departments to use for the pilot project. These criteria include the following:

1. The availability of stock clerks;
2. Number of deliveries the Department receives; and
3. The type of merchandise the Department usually orders.

Recommendation #13:

Before initiating the pilot project, Purchasing should do the following:

1. Develop detailed receiving procedures for the Departments on the timely processing of receiving documents;
2. Provide training to Departments on these procedures; and
3. Coordinate this project with the City Manager and the Directors of the departments involved to ensure adequate importance is given to complying with the receiving procedures.

Recommendation #14:

Analyze its Receiving workload to determine if it would be more cost effective to deliver some items such as business cards directly to Departments.

Recommendation #15:

Develop and maintain a log of shipments to be received at the Central Warehouse. This log should indicate the date of delivery, the type of shipment, and when the shipment was checked in.

Recommendation #16:

Take steps to eliminate the number of stores "walk-ins". These steps should include notifying Departments that only emergency "walk-in" orders will be filled and limiting the number of hours each day that "walk-ins" will be accepted.

To improve its management information system Purchasing should:

Recommendation #17:

Establish different goals for different types of purchases. Purchasing should establish these goals by 1) identifying all the steps involved in processing each type of requisition, and 2) determining the optimum time required to complete each step.

Recommendation #18:

Request Information Systems to make the following changes to its management reports:

1. Identify the number of the requisitions processed over established processing goals;
2. Modify its program to exclude only formal bids from the calculation of the average processing time; and
3. Include Accounting's time to encumber funds in the calculation of the average processing time.

INTRODUCTION

The Department of General Services' Materials Management Division (Purchasing) is responsible for procuring supplies, materials, equipment and services for City Departments. As such, Purchasing is responsible for most of the City's procurement needs with City Departments only purchasing items on their own through their petty cash funds. During fiscal year 1985-86, Purchasing was responsible for buying approximately \$40 million in supplies, materials, equipment, and services for the City.* In addition to its procurement responsibilities, Purchasing is also responsible for receiving items at the City's warehouses and delivering items to City Departments. Purchasing also administers the City Stores, Reprographics, Surplus Property programs and the City's Minority Vendor Program.

* In its 1985-86 budget submission, General Services estimated that it was responsible for buying \$80 million in goods and services in 1984-85. The \$40 million difference between the two figures is Account Category Number 52, "Contracted Services". In its estimate, General Services assumed that Purchasing processed all of the contracts in Account Category Number 52. Our figure does not include any of the expenditures in Account Category Number 52 because 1) Purchasing has no record of the number of contracts in this category that it processed; and 2) when we reviewed 24 contracts in Account Category Number 52, we did not identify any contracts that Purchasing had processed. Based on our discussions with Purchasing regarding this issue, Purchasing is now recording those contracts it processes that are included in Account Category Number 52.

Purchasing Authority

San Jose Municipal Code Sections 4.12 and 4.13, enacted in 1984, govern the City's Purchasing process. The Code authorizes the City Manager, City Attorney, City Auditor, City Clerk and the City Council to execute contracts or purchase orders to buy supplies, materials, equipment, and services. The City Manager or his delegated agent, the Director of the Department of General Services, is authorized to execute agreements for the following purchases:

- o Purchases not subject to bidding requirements;
- o Purchases from other public agencies;
- o Purchases made on Open Purchase Orders in which the open purchase order amount does not exceed \$20,000;
- o General Services contracts that do not exceed \$20,000; and
- o Emergency purchases.

The City Attorney, City Auditor and City Clerk are authorized to execute contracts that do not exceed \$20,000.

Only the City Council is authorized to execute contracts on purchase orders for the following purchases:

- o Purchases that are subject to bidding requirements;
- o Purchases made on open purchase orders in which the open purchase order amount exceeds \$20,000; and
- o General service contracts that exceed \$20,000.

Section 1217 of the City Charter establishes a limit for purchases that are subject to bidding requirements. The Charter specifies that the limit to which a closed bid process must be used is either the amount a general law city may spend for a public project without formal bidding (currently \$5,000) or \$3,500, whichever is greater. Thus, at the present time, Purchasing generally must solicit bids on items costing more than \$5,000.

Purchasing Process

The City Purchasing process begins when a Department determines it needs an item and ends when Purchasing delivers

the needed item to the Department. The purchasing process is comprised of the following activities:

1. Requisition
2. Vendor selection
3. Vendor performance
4. Receiving
5. Delivery

Each of these activities is briefly described below:

Requisition

A Department wishing to buy goods or services prepares and sends a requisition to Purchasing. Specifically, the requisition should describe the needed item or service, the quantity needed, and the date the item or service is needed. Departments use different requisition forms, depending on the type of item to be purchased. There are different requisition forms for:

1. Materials and services;
2. Store items; and
3. Duplicating services.

There is also a "traveling requisition", which Departments use for commonly used items not carried in stores. This requisition is a ledger that "travels" between the Department and Purchasing and has information on past purchases of the item. In addition, Purchasing also establishes Open Purchase Orders which allow Departments to requisition items directly from the vendor. Finally, Departments can make emergency purchases by telephoning Purchasing and obtaining approval to buy needed items.

Vendor Selection

This process begins when Purchasing receives a Department requisition. The vendor selection process for a materials, supplies, and services requisition is as follows:

- o Once Purchasing receives the requisition, the Senior Buyer assigns it to a Buyer based on the type of commodity to be purchased.
- o For purchases not requiring formal bids, Purchasing obtains informal bids either over the telephone or by mailing requests for written quotes to vendors.
- o For those purchases that must be formally bid, Departments, with Purchasing's assistance, must prepare detailed, written specifications. Purchasing must advertise in the newspapers that quotes are being taken for the requested item and the City Council must approved the award.

- o The Buyer selects the vendor based on quoted prices and qualitative factors such as the service the vendor can provide.
- o After the Buyer selects the vendor, the order is placed with that vendor. To place the order Purchasing either mails the purchase order to the vendor or it places what it terms a "Confirming Order". When Purchasing places such an order, it telephones the vendor to determine if the item is in stock. If so, Purchasing places the order.

Vendor Performance

The acceptance of a purchase order legally binds the vendor to meet the terms of the order. This requires the vendor to deliver the specified goods in satisfactory condition, by the specified date, and for the specified price.

Receiving

The receiving process takes place after the vendors ship merchandise to the City. Most of the shipments are delivered to the City's central warehouse where Receiving staff inspect the shipments to insure that the vendors have complied with the terms of the purchase order.

Delivery

After shipments have been received, Purchasing staff delivers items to the Departments. Purchasing has its own staff that makes deliveries.

SCOPE AND METHODOLOGY

We reviewed the Department of General Services' Materials Management Division (Purchasing) to evaluate the timeliness of the City's purchasing process. We focused our review on the timeliness of each of the following elements of the process: 1) vendor selection, 2) vendor performance, 3) receiving, and 4) delivery. We also limited our review to the following types of requisitions:

1. Materials and services requisitions;
2. Stores requisitions, and
3. "Traveling" requisitions

To evaluate the timeliness of the purchasing process, we selected a random sample of each of the above requisitions. We reviewed Purchasing files to determine if it met its own goals for processing these requisitions. In addition, we reviewed purchase orders and receiving reports to determine how long vendors took to deliver merchandise to the City, and whether

vendors met the delivery date they promised. Further, we reviewed Purchasing's receiving reports to determine if it met its own goals for receiving shipments of merchandise. Finally, we reviewed Purchasing's delivery reports to determine if it met its own goals for delivering merchandise to Departments.

In addition, as a means of determining the degree to which City Departments are satisfied with Purchasing's service, we sent questionnaires to all City Departments. We sent these questionnaires to the City staff responsible for handling their Department's purchasing needs. We received 53 responses to our questionnaire.*

Finally, we contacted five cities and five counties in the Bay Area to obtain information on the purchasing practices of other local governments.

*A copy of the questionnaire is shown as Attachment A.

FINDING I

OPPORTUNITIES EXIST TO SIGNIFICANTLY IMPROVE PURCHASING'S RESPONSIVENESS TO PURCHASE REQUISITIONS

Purchasing frequently fails to provide Departments with needed goods and services in a timely manner. As a result, Departments sometimes go without needed supplies and equipment or have to make other arrangements in order to obtain these items. Purchasing's inability to process requisitions in a more timely manner is largely the result of significant workload increases without commensurate increases in resources. By implementing relatively simple procedural changes, Purchasing could significantly improve its responsiveness to Departmental purchase requisitions.

Purchasing is Not Meeting Its Processing Goals

Purchasing's goal, as stated in its workplan for 1985-86, is to process 95 percent of all purchase requisitions within 20 working days. The 20 day time period begins when Purchasing receives a requisition and ends when an order is placed with the vendor.

In order to ascertain Purchasing's success at meeting its own processing goal, we randomly selected 272 requisitions for analysis. Our review found that Purchasing processed only 144, or 53 percent, of the 272 requisitions in our sample within 20 working days. Moreover, in approximately 90 percent of the purchases sampled, Purchasing did not meet the delivery date the requesting Department specified on the purchase requisition. As a result, Purchasing frequently fails to provide Departments with needed goods and services in a timely manner. Consequently, Departments sometimes go without needed supplies and equipment or have to make other arrangements in order to obtain these items.

In response to a questionnaire we sent to City Departments, examples were cited of instances where Departments had to do without needed supplies and equipment. For example, one Department reported to Audit staff that they had to rent a typewriter because Purchasing was slow in processing its requisition for a typewriter. Another Department reported that staff had to stop updating files because Purchasing was slow in getting the new files the Department had requested. A Department also reported that it had to cancel an exhibit planned for Living History Days because Purchasing did not deliver requested exhibit cases on time. Another Department

reported that Purchasing was slow to deliver chairs for a Senior Citizens' Center. As a result, the Department spent additional time and labor borrowing chairs from other centers. These and other Department reported instances of slow response to purchasing needs ultimately reduce productivity and add to the cost of the purchasing process.

Based upon our review, it is our opinion that Purchasing's inability to meet its processing goals is the result of 1) significant workload increases without commensurate staff increases and 2) the encumbrance process.

Increased Workload Has Slowed the Purchasing Process

In 1985-86, Purchasing processed approximately 2,100 more purchase requisitions and issued 1,650 more purchase orders than it did in 1984-85, increases of 22 and 23 percent respectively. These workload increases were accommodated without any corresponding Purchasing staff increases. As a result, Buyers are using a purchasing method that adds three to four weeks to the purchasing process.

Inefficient Purchasing Methods

Our review of Purchasing revealed that Buyers frequently use a purchasing method that adds an estimated three to four weeks to the purchasing process. Buyers elect to use this inefficient purchasing method because:

- o Buyers have less time than before to devote to individual requisitions;
- o Buyer Assistants are not functioning as intended; and
- o Buyers must spend a significant amount of their time on the telephone talking to Departments.

Workload Problems

Workload increases have caused Buyers to process more requisitions than before but with the same or less resources. Consequently, Buyers have less time to devote to each requisition. Compounding this workload problem is the fact that Buyers are essentially functioning without the aid of Purchasing's two Buyer Assistants.

Theoretically, Buyer Assistants should ease the Buyers' workloads by 1) resolving complaints from Departments, 2) sending out Request for Quotes, 3) matching returned quotes

to requisitions and 4) performing other duties related to the procurement of goods and services. However, the two Buyer Assistants are not functioning as intended. One is working full-time writing and typing memorandums to the City Council; the other is also not performing tasks that aid the Buyers in meeting their workload. As a result, the Buyers must perform all of the tasks intended for the Buyer Assistants themselves. Thus, the time Buyers devote to their principal responsibilities is diminished.

Frequent telephone conversations with Departments further reduce the time Buyers spend processing requisitions. According to the Buyers they spend 25 to 40 percent of their time talking on the telephone to Department staff. The majority of these telephone calls are the result of 1) Departments not providing sufficient information on their requisitions, 2) Departments inquiring as to the status of their requisitions, or 3) Departmental emergencies that require Purchasing's assistance. The effect of these telephone calls is that Buyers have less time available to work on their primary responsibility, procuring goods and services for the City.

Because of the workload problems described above, Buyers have resorted to 1) using written bids to obtain price quotes from vendors and 2) mailing purchase orders to vendors, both of which add considerable time to the purchasing process.

Specifically, in our sample of requisitions, Buyers used written bids, both formal and informal, to obtain quotes approximately 46 percent of the time. In addition, Buyers placed approximately 63 percent of the orders in our sample by mailing the purchase order to the vendor.

The Buyers used these methods because the amount of time they have available to spend obtaining quotes and placing orders is significantly reduced. For example, to obtain written quotes, the Buyers need only 1) determine the vendors from which quotes are to be obtained; 2) have Requests for Quotes typed and mailed to the vendors; 3) compare the returned written quotes; and 4) select the vendor. To place the order, the Buyer usually has a purchase order typed and mailed to the vendor. By using these processes, Buyers can handle a larger volume of requisitions in the same amount of time.

Although the use of written quotes and purchase orders allow Buyers to handle a larger volume of requisitions, it also is considerably slower than if the Buyers telephoned vendors to obtain price quotes and to place orders. For example, the requisitions in our sample where Purchasing obtained written quotes and mailed a purchase order to the vendor, averaged 30 working days to process. In comparison, the requisitions in

our sample where the Buyers telephoned vendors to obtain price quotes and used a "confirming order" averaged 14 working days to process, a difference of three weeks.

Telephoning vendors to obtain price quotes and using "confirming orders" significantly reduces requisition processing times by eliminating the time it takes 1) Purchasing to type the Request for Quotes; 2) Purchasing to mail the Request for Quotes to the vendors; 3) Vendors to return the Request for Quotes to Purchasing; 4) Purchasing to type the purchase order; and 5) Purchasing to mail the purchase order to the vendor. Even in those instances when written quotes are necessary, Purchasing could reduce processing times if it placed orders by using "confirming orders".

Changes Could Reduce Purchasing's Workload Substantially

Before Purchasing can use the telephone more extensively to obtain quotes and place orders, Buyers must be relieved of some of their workload. This could be accomplished if the Buyer Assistants were used as intended.

Our review identified three changes that would allow Buyers to better manage their workload and allow one of the Buyer Assistants to perform as intended. These changes are

intended to improve Purchasing's processing time without requiring additional staff. The changes are as follows:

1. Finance should increase the maximum amount of Department petty cash fund purchases;
2. Purchasing should modify its procedures to reduce the number of purchase orders that must be typed; and
3. Purchasing should develop written purchasing guidelines and provide more training and education to City Departments.

If implemented, these changes should do the following:

1. Reduce the overall volume of purchases that Purchasing is responsible for;
2. Reduce Purchasing's typing workload; and
3. Reduce the number of telephone calls with Departments.

The end result of the above changes should be that at least one of the Buyers' Assistants would be allowed to perform as intended; that is, assisting the Buyers in procuring goods and services for the City. Further, Buyers should have more time available to concentrate on their proper responsibilities.

Increase the Maximum Amount of
Petty Cash Fund Purchases

Purchasing's workload could be reduced if the Finance Department increased the purchasing limit for Department petty cash funds. Currently, Departments can use petty cash to buy items costing less than \$30. However, if the limit were raised to \$100, Purchasing could reduce its buying workload by as much as 14 percent. Such a reduction should free up some of the Buyers' time and reduce some of Purchasing's typing backlog. Furthermore, this change should remedy some of Purchasing's receiving problems as its receiving workload should also be reduced. (See page 41 for a discussion of Receiving). Finally, Accounting's workload should also be reduced as it would not have to encumber funds or make payment for these purchases.

Further, our review found that it costs Purchasing more to process purchases smaller than \$100 than any savings Purchasing can possibly generate. The Chief of Purchasing estimates that it costs Purchasing approximately \$55 to process each purchase requisition. This estimate is based upon the effort required to:

1. Type the requisition;
2. Obtain quotes and select a vendor;
3. Type a purchase order;
4. Receive the merchandise; and
5. Deliver the merchandise to the requesting department.

It should be noted that the \$55 estimate does not include the effort Accounting expends encumbering funds and making payments. Yet, Purchasing generates very little, if any, savings on purchases less than \$100 because Buyers usually 1) do not send out for quotes and 2) use the vendor the Department suggests on the purchase requisition. Even when Purchasing sends out for quotes, any savings realized on purchases less than \$100 do not begin to offset the cost of processing the purchase requisition.

While Departments may incur some additional effort to process purchases less than \$100, shortened acquisition time and convenience should more than compensate for the additional effort. In fact, most of the Departments that responded to the City Auditor's purchasing questionnaire 1) endorsed the concept of increasing the Petty Cash purchasing limit and 2) did not foresee any associated workload problems.

*Modify Procedures to Reduce the Number
of Purchase Orders That Must be Typed*

Purchasing could also substantially reduce its typing workload if it modifies procedures to reduce the number of purchase orders that it types. Such a reduction should free up one of the Buyer Assistants to work as intended, that is, helping the Buyers.

Currently, Purchasing types a purchase order for every purchase it makes. However, our survey of local government purchasing practices revealed that several local government type relatively fewer purchase orders than does the City of San Jose. For example, one County has persuaded vendors to respond to requests for items without a written purchase order. According to one official from this County, less clerical staff is now required because vendors are willing to accept verbal orders. In addition, audit staff contacted four other local governments that use a combination purchase requisitions/purchase order system. Of the local governments contacted, a county and a city create a purchase order from a purchase requisition by photocopying the requisition onto an overlay of a purchase order. Another entity writes purchase information onto a combination purchase requisition/purchase order to reduce its typing workload. While there are slight technical differences procedure-wise between the four local governments contacted, all four claim to type relatively fewer purchase orders than does Purchasing.

Purchasing could reduce its typing workload if it implemented procedures similar to the local governments contacted. For example, when Purchasing places a "confirming order", it telephones the vendor to "confirm" that the vendor has the requested order in stock. If the vendor has the item

in stock, Purchasing places the order. The vendor then delivers the order to Purchasing without benefit of a purchase order. However, Purchasing still types a purchase order to document the purchase for Receiving, Accounting and its own records. If Purchasing used a combination purchase requisition/purchase order, the necessary information could be handwritten instead of typed. We estimate that "confirming orders" account for approximately 37 percent of all purchase orders. Accordingly, if Purchasing used a combination purchase requisition/purchase order and wrote in necessary information instead of having it typed, it could reduce the number of purchase orders that must be typed by approximately 37 percent.

In addition to confirming orders, Purchasing could reduce the typing of purchase orders for other purchases as well. Specifically, Purchasing could use handwritten purchase orders for smaller purchases, that is, purchases under \$500 to \$1,000. For large purchases, typing the purchase order is preferable because it eliminates the risk of a misunderstanding between Purchasing and the vendor. However, this risk is not as critical for smaller purchases. Therefore, for these purchases, Purchasing could write the purchase information on the purchase order, thus substantially reducing its typing workload. Our review found that purchases of less than \$500 account for approximately 44 percent of all purchases, while

purchases of less than \$1,000 account for approximately 63 percent. Thus, if a combination purchase requisition/purchase order procedure were adopted for these small purchases, Purchasing could significantly reduce the number of purchase orders it types.

In our opinion, Purchasing should consider the following procedural changes to reduce its typing workload:

1. Implement a combination purchase requisition/purchase order system;
2. Persuade vendors to accept verbal orders, whenever possible; and
3. Handwrite, instead of type, purchase information on purchase documents, whenever possible.

Purchasing Needs to Develop Written Procedures
and Provide More Training to Departments

Besides the above changes, Purchasing should take steps to minimize the amount of time buyers spend talking with Departments. As mentioned earlier, buyers spend a considerable amount of their time talking to Department staff to 1) resolve problems with poorly written requisitions, and 2) update the Departments on the status of their requisitions. However, our review indicates that Purchasing could reduce the number of discussions with Department staff if it developed written procedures and provided more training on the City's purchasing

process. Specifically, our review indicated that Departmental staff involved in the purchasing process do not have a good understanding of the following areas of City's purchasing process:

1. How to prepare requisitions
2. How to use the Purchase Inquiry System
3. The time Purchasing needs to process requisitions

Departments Need Procedures and
Training on How to Prepare Requisitions

Although some problems with requisitions are unavoidable, Purchasing could improve this process if it developed written procedures and regularly provided training to Departments. Currently, Purchasing does not have up-to-date written procedures on the purchasing process. Of the respondents to a City Auditor questionnaire, sixteen cited the need for more and better written purchasing procedures.

Purchasing also needs to provide training to Departments regularly to keep Department staff apprised of current purchasing procedures. In fiscal year 1985-86, Purchasing attempted to meet with staff involved in the purchasing process. On several occasions, Purchasing held training

sessions to provide Department staff with information on the purchasing process. However, 17 of the 53 respondents to our questionnaire stated that they had not met with Purchasing staff during the last year.

*Departments Need Procedures and Training
to Use the Purchase Inquiry System*

Purchasing also needs to develop written procedures and provide training to Departments on how to use its Purchasing Inquiry System. This system allows Departments to determine the status of their requisitions by accessing Purchasing's automated system. By using this system, Departments should reduce the telephone inquiries they make to Buyers to determine the status of their requisitions.

However, our review found that Departments lack adequate information to use this system effectively. Specifically, Purchasing has not provided written procedures and sufficient training to Departments on how to use this system. In fact, 20 respondents to our questionnaire indicated that they did not know how to use the system and another 12 respondents indicated that the system was either marginally useful or not useful at all.

Departments Need Better
Information On Processing Time

Finally, our review indicated that Departments do not have adequate information on the time that it takes Purchasing to process their requisitions. Specifically, 17 of 53 respondents to our questionnaire indicated that they did not know how long it takes Purchasing to process a requisition; fifteen others indicated that Purchasing needs less than 20 days to process a requisition.

Departments need information on processing time to adequately plan for the ordering lead time. In addition, the lack of information can cause Departments to have unrealistic expectations of when their purchase will be completed. As a result, the Departments frequently contact the Buyers to determine why they have not received the item they ordered.

In our opinion, Purchasing could reduce the number of calls from Departments if it included information on how long Purchasing takes to process requisitions in its written procedures and training sessions.

Typing Delays Slow Processing Time

Purchasing's workload increases have also resulted in backlogs in the typing of purchase orders and requests for

quotes. These backlogs have caused significant processing delays. For example, at one time during our review, Purchasing had over 200 purchase orders waiting to be typed. Given that one typist can type approximately 30 purchase orders per day, some of these purchase orders would not be typed for as long as seven working days. In addition, when Purchasing sends a request for written quotes to a vendor, that request must also be typed. As a result, the purchasing process can also be delayed for several days because requests for written quotes are also backlogged in typing.

Purchasing should be able to improve its typing turnaround time by implementing those procedural changes designed to reduce the volume of typing previously discussed. These changes should significantly reduce or eliminate typing backlogs and resultant time lost to the typing process.

Encumbrance Process

Besides workload problems, Accounting's encumbrance process delays the processing of requisitions. Specifically, our review found that the process takes an average of four working days. Therefore, Purchasing could significantly reduce its processing time on requisitions if Accounting did not encumber funds for all purchases.

Although encumbering funds minimizes the risk of Departments overspending their budgets, this process may be unnecessary in many instances. We found that some local governments do not encumber funds on smaller purchases, the theory being that small purchases will most likely not cause departments to exceed their budgets. For example, audit staff contacted one County that generally does not encumber funds for purchases under \$1,000. Another City contacted does not encumber funds for purchases under \$500. According to these local governments, the practice of not encumbering funds for small purchases has not caused any problems.

If Accounting did not encumber funds for purchases under \$500 or \$1,000, Purchasing could reduce its processing time on those purchases by an average of four working days. An additional benefit would be that Accounting would have to encumber significantly fewer purchase orders. Thus, Accounting should be able to encumber larger purchase orders much faster. For example, we estimate that if Accounting had not encumbered funds for purchases less than \$500, it would have encumbered approximately 3,900 fewer purchase orders during 1985-86. Moreover, if Accounting had not encumbered funds for purchase orders less than \$1,000, it would encumber approximately 5,600 fewer purchase orders during the same period.

We have discussed the feasibility of Accounting not encumbering small purchases with Accounting and Purchasing officials. The Chief of Accounting endorses the concept because it will help reduce Accounting's workload and it poses minimal risk. Further, any associated risk could be mitigated if Accounting encumbered funds for only the last month or two of the fiscal year when the risk of Departmental overspending is the greatest. The Chief of Purchasing also approves of this concept and recently met with Accounting to discuss plans for implementing these new procedures.

Increase Staffing

If the recommendations in this Finding are implemented and Purchasing's processing time does not improve significantly, the Administration should consider increasing the staffing for the buying function. In our opinion, emphasis should be given to increasing the number of Buyer Assistants. This position can be funded at less cost, and if used effectively, can significantly reduce the Buyers' workload. Thus, Buyers would have more time available for their primary function.

CONCLUSION

Purchasing can substantially reduce the time required to process purchase orders by reducing Buyers' workloads. This can be done by 1) increasing the Petty Cash Fund purchasing limit; 2) reducing the volume of purchase orders and requests for quotes that must be typed; and 3) providing City Departments with more information, training, and education.

In addition, if Accounting discontinued encumbering purchases for less than \$500 or \$1,000, Purchasing could process purchase requisitions an average of four days faster and Accounting would be relieved of a substantial and largely unnecessary workload burden. Finally, the Administration should consider adding Purchasing staff if the above changes do not produce significant improvements in requisition processing times.

RECOMMENDATIONS

In order to reduce the time required to process Departmental requests for goods, it is recommended that:

Recommendation #1:

The Finance Department should increase the maximum Departmental petty cash fund purchase allowable from \$30 to \$100.

Recommendation #2:

Purchasing should reduce its typing volume by:

1. Implementing a combination purchase requisition/purchase system,
2. Persuading vendors to accept verbal orders whenever possible, and
3. Writing instead of typing, purchase information on purchase documents whenever possible.

Recommendation #3:

Purchasing should develop a comprehensive written procedures manual on the Purchasing process. This manual should contain the following, at the minimum:

1. A description of the purchasing process;
2. Instructions on how to prepare purchase requisitions;
3. Information on the estimated processing time for requisitions; and
4. Instructions on how to use the Purchase Inquiry System.

Recommendation #4:

Purchasing should regularly provide training to Departments on current purchasing procedures. To ensure that appropriate staff attend these sessions, Purchasing should:

1. Contact Departments to identify those staff responsible for purchasing;
2. Schedule periodic training sessions; and
3. Coordinate with all Departments to ensure that all appropriate staff are scheduled for the training.

Recommendation #5:

Accounting should modify its procedures so that it does not encumber funds for smaller purchases.

Recommendation #6:

The Administration should consider adding Buyer Assistants to Purchasing's staff should the above Recommendations not produce significant improvements in requisition processing times.

FINDING II
PURCHASING NEEDS TO IMPROVE
ITS MONITORING OF
VENDOR PERFORMANCE

The San Jose Municipal Code and authoritative literature indicate the need for a formal system to evaluate vendor performance. However, our review revealed that Purchasing has not developed such a system. As a result, the City's ability to exercise its vendor selection authority is impaired and the City continues to do business with vendors who have not performed satisfactorily.

City Code Necessitates A Formal System

San Jose Municipal Code Chapter 4.12 pertains to purchases of supplies, materials, and equipment. This Chapter contains several provisions which necessitate that a formal system of monitoring and evaluating past vendor performance on City purchase orders and contracts be in place. Pertinent parts of these Code Sections are:

4.12.010 "...the Director of General
Services shall...have the
following specific powers and
duties:

A. Take the necessary action to insure that City will receive the needed quality and quantity of supplies, materials and equipment...

F. Prescribe and maintain forms as are reasonably needed to implement this Chapter..."

4.12.100 "If two or more bids received are for the same amount and are the lowest bids, the Council may accept whichever one it chooses..."

4.12.115 "A responsible bidder is a vendor with the capability in all respects, to perform the Purchasing contract completely."

4.12.120 "Where formal bidding is utilized, contracts shall be awarded by the City Council to the lowest responsible bidder meeting specifications..."
(Emphasis added)

4.12.135 (B) "In determining the most advantageous price quotation to the City for an open market purchase...the Council or the City Manager may give consideration to the:

...2. Ability of the vendor to perform the transaction;

3. Ability of the vendor to complete the transaction within the time specified;

4. Quality of the vendor's performance on prior purchase by the City or others;...

6. Capacity and experience of the vendor."

4.12.135 (C) "If an award in excess of one thousand dollars (\$1,000) is made to other than the vendor submitting the lowest price quotation, written reasons for the award decision shall be prepared and will be kept as a part of the record of the transaction." (Emphasis added)

4.12.146 (E) "Since open purchase orders are established in order to obtain the most cost-effective purchasing arrangements for the City, the following factors may be considered... in determining the most advantageous price quotation to the City:

...3. Quality of past service;"

Authoritative Literature Also Cites the
Need for a Vendor Performance System

The Council of State Governments in its report entitled State and Local Government Purchasing also 1) cites the need for a vendor performance system and 2) requires corrective action when vendors fail to perform satisfactorily. The report in part states that:

"Instances of nonconformance with specifications, noncompliance with contractual terms and conditions, or other types of complaints concerning suppliers' performance should be recorded and referred to central purchasing."

"...Nonconformance with specifications, poor performance, and other vendor complaints require prompt decisions that correct the problem. These decisions should be the direct responsibility of central purchasing. It may be necessary to revise a delivery schedule, cancel a contract, or initiate a new purchase action. A written warning to the supplier or even removal from the bidders list may be in order, and such actions are properly the province of the central authority." Purchasing is responsible for admitting firms to the bidders lists and therefore must be aware of complaints as first-hand information regarding the willingness of suppliers to cooperate when difficulties arise. This is also part of purchasing's contract administration responsibilities. ...The integrity of the purchasing process demands that goods and services be furnished as specified or, where this is not done, that measures be taken to satisfy the contract. ...Where the contractor is a chronic or serious violator, suspension may be in order or debarment as a future supplier may be the appropriate remedy...."

The report also identifies key elements of an effective vendor performance system. These elements include the following:

1. A complaint form to record and refer complaints;
2. A central complaint file; and
3. Guidelines to determine when and what type of action to take against vendors.

Specifically, the report states that:

"Most states and many local governments use a special document or a "Complaint to Vendor" form for this purpose (to record complaints); some use a detailed "Product Information Report." A file of complaint forms and information on the action taken can serve as a vital record in assisting purchasing agents to deal effectively with poor performance on the part of suppliers. In addition, complaint records can be used as criteria for deleting suppliers from the bidders list and in deciding which of two equal low bidders should receive an award.

Records of complaints, actions taken, and final resolutions should be filed and be accessible to all who need to review them. ...If not maintained on a computer, complaint files should be arranged and indexed so that all complaints about a particular supplier can be quickly collected. Where complaint records are kept with other vendor records rather than centrally filed, the complaint information shall be identifiable for easy retrieval. A simple method of doing this is to put complaint records in colored folders that contrast with those used for other records....

The management information system should seek to incorporate vendor performance with other computerized vendor data.

An effective reporting procedure provides for periodic reviews and checkpoints for action. Guidelines should be established indicating that when a certain number of complaints about a supplier have been received within a certain period of time, the supplier's record should be reviewed for appropriate action. Actions taken could include visiting the supplier to discuss his performance, writing letters that caution him against continued poor performance, and informing him of criteria for removing him from the bidders list. Factors such as the number of complaints, the seriousness of the complaints,

and the supplier's cooperation in rectifying situations that produce legitimate complaints are considered in deciding the severity of action needed."

Formal System Not In Place

In order for the above statutory provisions to be effectively implemented it is essential that Purchasing have a formal system to document instances of poor vendor performance. However, Purchasing has not developed such a system. According to the Chief of Purchasing, action has been taken against vendors in the past but not as the result of a formal system of monitoring and evaluating vendor performance. Purchasing does plan to implement a performance monitoring system in the future. Such implementation, however, requires Information Systems to make a programming change to allow Purchasing's automated system to compare promised delivery dates with actual delivery dates.

Vendors Not Meeting Delivery Requirements

Because it lacks a formal vendor performance system, Purchasing lacks sufficient data to evaluate the performance of its vendors. As a result, the City is doing business with some vendors that are not performing satisfactory. For example, our review of purchase requisitions revealed that vendors took an

average of 37 days* to complete deliveries on City ordered items. Further, vendors failed to make delivery by the date they specified on 59 percent of the orders we reviewed.

For instance, one vendor promised to deliver valves to the Water Pollution Control Plant by May 1985. However, the vendor did not make final delivery on this order until January 1986--seven months after the date promised. This same vendor had three other orders with the City during 1985-86 and failed to meet the promised delivery date on two of those orders. Another vendor promised to deliver a drafting table to the Fire Department by October 1985 but did not make delivery until January 1986--two months after the date promised. Purchasing did not take action against these or any other of the vendors that failed to meet the promised delivery date.

Purchasing Should Document Problems With Vendors

Although some late deliveries are unavoidable, Purchasing should take steps to deal with vendors who make untimely deliveries. Specifically, Purchasing should request

* We calculated our average beginning with the date Purchasing mailed the purchase order to the vendor and ending when the vendor delivered the complete order to the City. Vendors may have made partial deliveries before completing the order.

Information Systems to program its automated system to compare promised or specified delivery dates to actual delivery dates. Purchasing should also develop a form, to be distributed to the buyers and to the departments, for recording instances of poor vendor performance. The form should be used to provide information on all instances of poor vendor performance including untimely deliveries. In addition, Purchasing should maintain a central file of vendor complaints. That file should be available to buyers to assist them in choosing which vendor should receive a City purchase order or contract. The City Council should also have vendor complaint information available to it when it chooses which vendor will receive City awards in excess of \$20,000. Finally, Purchasing should develop guidelines that specify criteria for determining how many vendor complaints warrant a review of the vendor's performance. The guidelines should specify the action to take against the vendor being reviewed. In cases of persistent failure to deliver on time, Purchasing should consider suspending or removing vendors from the bidders list.

CONCLUSION

Purchasing is responsible for monitoring vendor performance on City purchases and taking appropriate disciplinary

action when vendors fail to perform. In order to effectively discharge its responsibilities, Purchasing needs a formal system to monitor and evaluate vendor performance. Such a system currently does not exist. As a result, the City vendor selection process is impaired and the City continues to do business with vendors who have a record of not meeting specified delivery dates.

RECOMMENDATION

It is recommended that:

Recommendation #7:

Purchasing should request Information Systems to program its automated system to compare promised or specified delivery dates to actual delivery dates.

Recommendation #8:

Purchasing develop and distribute to buyers and to Departments a form for recording instances of poor vendor performance, including late deliveries.

Recommendation #9:

Purchasing maintain a central file of vendor complaints. The information in this file should be available to Buyers and the City Council.

Recommendation #10:

Purchasing should develop guidelines to determine when a vendor's performance should be reviewed.

Recommendation #11:

Purchasing should take appropriate disciplinary action against vendors including suspension and debarment as a future supplier to the City.

FINDING III

PURCHASING CAN REDUCE CENTRAL WAREHOUSE PROCESSING TIME AND OPERATING COSTS

Purchasing's goal is to process items received at the Central Warehouse within two days. Our review revealed that Purchasing fails approximately 60 percent of the time to meet its two day processing goal and that it can take more than a month to process some items through the Central Warehouse. Such processing delays are largely the result of workload increases without commensurate resource increases and inefficient practices and procedures. Purchasing can deliver items to City Departments faster and reduce the Central Warehouses operating costs by implementing several changes.

Purchasing Is Not Meeting Its Receiving Goal

Most vendors deliver ordered items to the City's Central Warehouse for inspection. To inspect shipments, Central Warehouse staff must:

1. Count the merchandise to ensure that the number of items shipped agrees with the vendor's packing slip.
2. Compare the information on the packing slip to the purchase order to ensure that they agree. Any exceptions are noted.

3. Inspect the goods to ensure that they are in good condition and verify that the brands and serial numbers on the items agree with those on the purchase orders.
4. If exceptions are noted, notify the Buyers or the ordering Department.
5. If no exceptions are noted, sign off the receiving copy of the purchase.
6. After the receiving copy is signed off, Purchasing staff deliver the items to the Departments.

Purchasing's goal is to process shipments delivered to its Central Warehouse within two working days. The goal is consistent with the Council of State Governments report which stresses the importance of a timely receiving process. The report states:

"If there is an unreasonable amount of time between delivery and inspection, the delay may have nullified the government's right to demand that unsatisfactory performance be corrected. Not making an inspection promptly also may cause difficulties in establishing a successful claim against a supplier when problems are finally detected."

However, our review revealed that Purchasing is not meeting its receiving goal. Specifically, we reviewed 101 shipments received at the Central Warehouse to determine if they were processed in two days. Of the 101 deliveries tested,

only 42 percent were processed within two working days.* In addition, the Central Warehouse staff took over two weeks to process 14 shipments and over one month to process 3 of the shipments. As a result, Departments are having to wait longer than necessary to obtain requested goods. For example, the Central Warehouse staff took 36 days to process a shipment of chemicals the Water Pollution Control Plant had requested. According to an official from the Plant, they have had to order the same chemicals on an emergency basis because Purchasing was slow in getting the chemicals to the Plant.

Workload Problems

Purchasing's receiving problems are largely the result of significant increases in Purchasing's workload without a corresponding increase in staff. The increase in the number of purchase orders issued from 1984-85 to 1985-86 noted on page 11 of this report affects the Central Warehouse workload. In fact, the correlation between the number of purchase orders and Central Warehouse workload is almost direct because most purchase orders are processed through the Central Warehouse. This situation has caused untimely processing of goods and additional costs.

* The average processing time for the 101 shipments tested was 4.5 days.

In order to reduce the receiving backlogs in the Central Warehouse, staff have regularly worked overtime. For example, Receiving staff worked over 1,000 hours of overtime during 1985-86. Moreover, Purchasing used temporary help from employment agencies to assist them in handling its Receiving workload. In fiscal year 1985-86, the cost of the overtime hours and temporary help was approximately \$33,000.

Other Problems

Besides the workload problems, we identified several other factors that have slowed the Central Warehouse inspection process. These factors are as follows:

1. Purchasing lacks systematic procedures for receiving backlogged shipments;
2. The number of "walk-ins" has increased; and
3. Purchasing is slow to process confirming purchase orders.

Purchasing Lacks Systematic Procedures

Our review found that Purchasing lacks systematic procedures to check in shipments that have been backlogged. According to receiving officials, when shipments get backlogged, they attempt to receive them in the order they are delivered. Staff may deviate from this when large shipments

are delivered because the large deliveries need to be checked in quickly to provide more room to work in the warehouse. However, our review of a sample of shipments received indicates that Purchasing does not always follow the procedures cited above and that there does not seem to be any pattern to Purchasing's checking in of merchandise. For example, we found some items that were checked in on the day they were delivered to the Central Warehouse while other items were not checked in for as long as five weeks after they were delivered. According to a Receiving official, some items may get overlooked and are not inspected in a timely manner.

Increase in Stores "Walk-ins"

According to Purchasing officials, Warehouse staff have less time to receive merchandise because the number of Departments that hand-carry their stores requisitions to Purchasing has increased significantly. Departments that hand-carry their requisitions to Purchasing are referred to as "walk-ins". A Purchasing official estimated that they are now handling 20-40 "walk-ins" per day. Furthermore, our analysis of 101 stores requisitions indicates that approximately 30 percent of the stores requisitions filled in 1985-86 were "walk-ins". According to a Purchasing official, these "walk-ins" occur throughout the day and disrupt Purchasing staff from performing their regular duties such as filling routine stores requisitions and receiving merchandise.

Slow Processing of Confirming
Purchase Orders Delays Receiving

Purchasing's slow processing of confirming purchase orders also delays the processing of some shipments at the Warehouse. When Purchasing uses a confirming purchase order, it places the order with a vendor before the purchase order is typed. In some instances, the vendor will then deliver the goods to the Central Warehouse before the purchase order is typed. Without a purchase order, the receiving staff cannot check in the shipments because they have no record of the order. As a result, the Receiving staff put the shipments aside and do not check them in until the purchase order is typed and sent to Receiving.

Procedural Changes Would Speed Up the
Receiving Process and Reduce Operating Costs

We have identified four procedural changes that we believe will speed up the receiving process at Central Warehouse and reduce the operating costs as well. The changes are for Purchasing to:

- o Increase the number of direct shipments to Departments;
- o Maintain a log of shipments received at the Warehouse;

- o Reduce the number of "walk-in" requisitions; and
- o Use a combination purchase requisition/purchase order.

*More Shipments Could be Delivered
Directly to Departments*

Our review found that Purchasing could reduce some of its Central Warehouse workload if it had vendors deliver more items directly to Departments. Currently, vendors deliver most shipments to the Central Warehouse. However, large equipment items or items of a very technical nature may be delivered directly to the Departments. If Purchasing had vendors deliver more items directly to departments, Central Warehouse workload, backlogs, and check-in times would be reduced.

Our review found that several Departments, such as the Water Pollution Control Plant and the Airport, have stock clerks that can handle increased deliveries. In addition, 39 of the 53 Department respondents to our Purchasing questionnaire stated that they have staff available that could handle direct deliveries. Further, some Departments already check in large or technical items and forward the receiving documents to Purchasing. In our opinion, Purchasing should have vendors

deliver shipments directly to one or two selected Departments on a pilot basis. Purchasing should use several criteria for selecting the Departments to use for the pilot project including:

1. The availability of stock clerks;
2. The number of deliveries to the Departments;
3. The type of merchandise the Department orders.

Based upon our analysis, the Central Warehouse's workload would be reduced by 21 percent if direct deliveries were made to the Water Pollution Control Plant and the Airport.

It should be noted that Purchasing officials are reluctant to have vendors deliver more items directly to Departments. According to these officials, in the past, Departments have been slow in forwarding receiving documents to Purchasing and subsequently to Accounting. Without these documents, Accounting cannot make payments to vendors. Consequently, the City is slow to pay vendors and cannot take advantage of cash discounts when offered. However, in our opinion, Purchasing can take several steps to mitigate these risks. First, Purchasing should develop detailed receiving procedures for Departments including the need to immediately forward receiving documents to Purchasing and

Accounting. In addition, Purchasing should, provide Departments with training on these receiving procedures. Finally, Purchasing should coordinate this project with the City Manager and departments directors to ensure that adequate importance is given to compliance with Purchasing's receiving procedures.

In addition, Purchasing should analyze its workload to determine if it would be more cost effective to deliver certain items directly to Departments. For instance, business cards, which cost approximately \$16 a box, take an inordinate amount of time to check in. Purchasing must compare the printed card to the sample card to verify that all the information on the card is correct. This work is very detailed and requires a high degree of concentration which is difficult to achieve in the Warehouse atmosphere. According to a Purchasing official, Purchasing receives an average shipment of 80 to 90 boxes of business cards every three to four weeks and that it takes one staff six to eight hours to check in a shipment of this size.

Maintain a Log

Purchasing could improve its procedures for checking in merchandise if it maintained a log of shipments delivered. Currently, Purchasing maintains a log of shipments already checked in but does not maintain a log of shipments awaiting to

be received. In our opinion, Purchasing should maintain such a log to ensure that shipments do not get overlooked. At a minimum, this log should include information on the contents of the shipments and the date the shipment was delivered. In addition, when Purchasing checks in a shipment, it should so indicate on the log. Purchasing could then use this log to ensure that it checks in shipments in the order they were delivered and that shipments will not get overlooked.

Purchasing could also use this log to plan how to handle its receiving workload. By having information on the number of shipments that need to be checked and the type of merchandise in the shipments, Purchasing can estimate the time that is needed to check in all shipments. Based upon this information, Purchasing can take appropriate action such as redirecting staff to reduce the backlog of shipments.

Reduce "Walk-ins"

Purchasing can significantly reduce the number of "walk-ins" by 1) responding to only emergency requisitions needs; and 2) reducing the number of hours per day "walk-ins" will be accepted. According to a Purchasing official, many "walk-ins" are not true emergencies, but mere Department convenience. Accordingly, the number of "walk-ins" could be reduced significantly if Purchasing would only accept emergency

"walk-in" requisitions. Furthermore, Purchasing could reduce the effect "walk-ins" have on its workload by limiting the number of hours per day "walk-ins" will be accepted. For example, Purchasing could limit "walk-ins" to two hours in the morning and two hours in the afternoon. This would allow Purchasing staff to work uninterrupted several hours each day checking in shipments. We contacted one County that had similar problems with stores "walk-ins" and adopted measures similar to those suggested above. A purchasing official in this County stated that these measures have virtually eliminated "walk-ins".

Combination Purchase Requisition/Purchase Order

Purchasing can eliminate receiving delays due to the typing of confirming purchase orders if it implements Recommendation 2 on page 29 to use a combination purchase requisition/purchase order. By handwriting instead of typing purchase information onto the purchase document, Purchasing should be able to forward a copy of the purchase order to Receiving much more quickly, thus eliminating the delays due to typing.

CONCLUSION

The Central Warehouse is experiencing slow processing times, excessive backlogs of delivered shipments, and avoidable operating expenses. This situation is due to a significant increase in workload without corresponding resource increases and inefficient practices and procedures. By implementing four procedural changes, Purchasing can process items through the Central Warehouse faster and reduce operating costs.

RECOMMENDATIONS

It is recommended that Purchasing:

Recommendation #12:

Increase the number of direct shipments to Departments on a pilot basis. Purchasing should use several criteria for selecting the Departments to use for the pilot project including:

1. The availability of stock clerks;
2. The number of deliveries the Department receives; and

3. The type of merchandise the Department usually orders.

Recommendation #13:

Before initiating the pilot project, Purchasing should do the following:

1. Develop detailed receiving procedures for the Departments on the timely processing of receiving documents;
2. Provide training to Departments on these procedures; and
3. Coordinate this project with the City Manager and the Directors of the Departments involved to ensure adequate importance is given to complying with the receiving procedures.

Recommendation #14:

Analyze its Receiving workload to determine if it would be more cost effective to deliver some items such as business cards directly to Departments.

Recommendation #15:

Develop and maintain a log of shipments to be received at the Central Warehouse. This log should indicate the date of delivery, the type of shipment, and when the shipment was checked in.

Recommendation #16:

Take steps to eliminate the number of stores "walk-ins". These steps should include notifying Departments that only emergency "walk-in" orders will be filled and limiting the number of hours each day that "walk-ins" will be accepted.

FINDING IV

PURCHASING NEEDS TO MODIFY ITS PERFORMANCE GOALS AND ITS MANAGEMENT REPORTS TO ADEQUATELY EVALUATE ITS PERFORMANCE

Purchasing has a goal to process all purchase requisitions within 20 days. Our review revealed, however, that this goal does not provide a valid measure of how timely Purchasing is processing requisitions. In addition, Purchasing's management reports do not provide adequate or reliable information on its performance. As a result, Purchasing lacks the information necessary to adequately assess its effectiveness.

Purchasing Needs to Modify Its Performance Goals

Purchasing has a goal to process 95 percent of all purchase requisitions within 20 days. This goal is not a valid measure of Purchasing efficiency or effectiveness. Specifically, certain types of requisitions by their very nature can be processed much more quickly than others. However, Purchasing has the same 20 day processing goal for all purchases. For instance, Purchasing can place an order much more quickly if it obtains quotes over the telephone than by using written informal quotes. We sampled 272 purchase requisi-

tions as part of our review. For those requisitions in our sample where Purchasing used telephone quotes, the processing time averaged 14 days. In comparison, for those requisitions requiring written informal quotes the processing time averaged 30 days.

The reason informal written quotes take longer to process is because they require several steps that telephone quotes do not. These additional steps are:

1. Purchasing must type the request for quotes and mail it to the vendors;
2. The vendor must return the written quote within a specified period, usually one to two weeks; and
3. Purchasing must match and compare the written quote to the requisition and determine which vendor to select.

Accordingly, informal written quotes, by definition, take longer to process than telephone quotes. However, Purchasing does not differentiate between the different procurement methods in setting its goals. As a result, Purchasing's universal 20 day processing goal does not provide an valid standard for measuring Purchasing's performance. Specifically, Purchasing's 20 day processing goal is too ambitious for informal written quotes and not ambitious enough for telephone quotes.

In our opinion, Purchasing should modify its performance goals to differentiate between the methods used to purchase goods and services. Purchasing should establish these goals by 1) identifying the steps involved in processing each type of requisition and 2) determining the optimum time required to complete each step.

*Purchasing Needs to Modify
Its Management Report*

Purchasing also needs to modify its management reports. Purchasing receives several management reports, one of which provides information on the number of requisitions that have been outstanding for over 21 days. The Chief of Purchasing uses this report to monitor the buyers' workload and to identify problems with requisitions. Purchasing also receives a quarterly report that provides the following information:

1. Total purchase requisitions processed during the quarter;
2. Requisitions processed in more than five days;
3. Requisitions processed in more than 10 days;
4. Requisitions processed in more than 15 days; and
5. Average time to process requisitions.

Although this report could be very useful, Purchasing needs to modify the report to provide more useful information regarding its performance. Specifically, the report does not identify the number of purchase requisitions that Purchasing failed to process within its processing goal. In addition, Purchasing excludes all requisitions processed in over 35 calendar days when calculating the average processing time. Purchasing makes this exclusion because it assumes that requisitions processed in more than 35 calendar days are formal bids. However, our review found that Purchasing's assumption is not correct. In fact, in our sample of 272 requisitions, we identified 89 requisitions that took more than 35 calendar days to process that were not formal bids. Finally, Purchasing does not include the time it takes for Accounting to encumber funds when calculating processing times. Our review found that the encumbrance process takes an average of four working days.

Purchasing should improve its management information by requesting that Information Systems make the following changes to its management reports:

1. Identify the number of the requisitions processed over established processing goals;
2. Modify its program to exclude only formal bids from the calculation of the average processing time; and
3. Include Accounting's time to encumber funds in the calculation of the average processing time.

Based on our discussions with Purchasing staff during the course of our audit, Purchasing has taken steps to improve its management reports. Specifically, Purchasing requested Information Systems to include the time that Accounting takes to encumber funds in the calculation of processing times. In addition, Purchasing officials plan to implement the other changes we have recommended.

CONCLUSION

Purchasing needs to modify its performance goals and its management reports to provide a better means to assess its performance. Specifically, Purchasing's 20-day processing goal does not provide a valid measurement of how efficiently or effectively it is processing purchase requisitions. In addition, Purchasing management reports do not provide adequate or reliable information on its performance.

RECOMMENDATIONS:

It is recommended that:

Recommendation #17:

Purchasing should establish goals for different types of purchases. Purchasing should establish these goals by

1) identifying all the steps involved in processing each type of requisition; and 2) determining the optimum time required to complete each step.

Recommendation #18:

Purchasing should improve its management information by requesting Information Systems to make the following changes to its management reports:

1. Identify the number of the requisitions processed over established processing goals;
2. Modify its program to exclude only formal bids from the calculation of the average processing time; and
3. Include Accounting's time to encumber funds in the calculation of the average processing time.

CITY OF SAN JOSE—MEMORANDUM

TO Gerald A. Silva, City Auditor

FROM James R. Daniels

SUBJECT RESPONSES TO DRAFT REPORT OF THE AUDIT OF
PURCHASING OPERATIONS

DATE August 22, 1986

APPROVED

DATE

The General Services Department staff has reviewed your draft report of the Audit of Purchasing Operations and we have provided responses to each of the recommendations enumerated below. Although we have some reservations, we feel that your recommendations are positive and will be beneficial to the Purchasing Operation. In fact, I would like to commend you on the professionalism which your staff, particularly Mike Edmonds, have exhibited in working with Purchasing during this audit.

I should make one additional observation. In some cases, your recommendations require work by Information Systems to improve the Automated Purchasing System. Presently, the General Accounting System (GAS) is being evaluated for possible replacement, and a vendor-produced automated purchasing system is being studied as a possible replacement for our existing system. These projects are highly interrelated. The decisions made in and timing of these projects will undoubtedly affect our timetable for implementing your recommendations. Nevertheless, we intend to implement your recommendations as rapidly as possible under the circumstances.

Recommendation #1:

The Department of Finance should increase the departments' petty cash funds from \$30 to \$100.

Response:

The Departments of Finance and General Services have discussed this recommendation and concur with it. We expect it to reduce our workload and to be cost effective, given the \$55 processing cost for a purchase order. We do feel that there are impacts of this recommendation that must be recognized.

First, the full \$55 processing cost will not be saved by the City. Departmental employees will spend more time procuring items at a cost which cannot be determined. Second, control of purchases and City equipment will be reduced. There will be no centralized acquisition record and no inventory record for items such as calculators, tape recorders, tools, etc. acquired at a cost of up to \$100 per item. At this point, however, Purchasing and Accounting workloads require that a change be made, and the controls maintained in the past may no longer be realistic to continue. The Finance Department has indicated the following:

First, the terminology used in the draft is incorrect. Each department's petty cash fund(s) limits are set by operational requirements, and may range from \$100 to several hundred dollars. The Auditor is referring

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rather to the dollar limit on individual petty cash transactions. Accounting agrees that the current limit of \$30 is artificially low. In surveying other California cities, in fact, we found that most smaller cities (population 100,000 or less) have a \$50 transaction limit; while larger cities tend to set the limit based on individual department needs. We also found that the majority of transactions between \$30 and \$100 (for which we are currently producing checks) are for contractual services, seminar registrations, refunds, and other service-type costs rather than the purchase of materials. We therefore agree that the danger of diminishing Purchasing's control of material purchases is slight, and more than matched by the decrease in paperwork for both Purchasing and Accounting.

Recommendation #2:

Consider implementing the following procedural changes to reduce the number of purchase orders it types:

1. Implement a combination purchase requisition/purchase system;
2. Whenever possible, persuade vendors to accept verbal orders; and
3. Whenever possible, write in instead of typing the purchase information on the purchase document.

Response:

1. The Purchasing Division will implement this recommendation by December 31, 1986.
2. This is being done now.
3. This will be accomplished along with #1.

Recommendation #3:

Develop a comprehensive written procedures manual on the Purchasing process. This manual should, at the minimum, do the following:

1. Describe the purchasing process;
2. Instruct departments on how to prepare requisitions;
3. Provide information on the estimated processing time for requisitions;
and
4. Instruct departments on how to use the Purchase Inquiry System.

Response:

The General Services Department also believes that a purchasing manual should exist but due to personnel time this manual has not been written. The General Services Department will assure that all the mentioned items will appear in the manual. The manual will be completed within 15 months from September 1986. The Purchasing Division staff has conducted 8 training sessions with departments this year describing in detail how to prepare a requisition, how long the requisition process time takes, and how to use the purchase inquiry system. In addition each year purchasing sends a memo out to all departments informing them how to use the purchasing information system. We will continue to provide training sessions as noted in (2), (3), and (4) above.

Recommendation #4:

Purchasing should regularly provide training to Departments on current purchasing procedures. To ensure that staff responsible for purchasing attend the sessions, Purchasing should do the following:

- Contact Departments to identify staff responsible for purchasing in their departments.
- Schedule periodic training sessions; and
- Coordinate with all departments to ensure that all appropriate staff are scheduled for the training.

Response:

During 1986 the Purchasing Division has conducted 8 training classes with all the City departments. The Purchasing Division will continue to conduct these training classes.

Recommendation #5:

Request Accounting to modify its procedures so that it does not encumber funds for smaller purchases.

Response:

This has been coordinated with the Finance Department and this recommendation will be implemented on a trial basis. The Finance Department has indicated the following:

We understand that "smaller" would be defined as \$500 initially and that once some experience is achieved, this will be reviewed for the possibility of raising the limit to \$1,000. While the departments will

need to be made aware of the fact that the consequent lag in management information vis a vis their cost center accounting reports may make it slightly more difficult to ascertain their actual budget position at a point in time, Accounting agrees with the Auditor that the increased efficiency in processing payment documents will more than outweigh this consideration.

Recommendation #6:

The Administration should consider adding Buyer Assistants to Purchasing's staff should the above recommendations not produce significant improvements in requisition processing times.

Response:

All recommendations will be implemented as soon as possible, and at the appropriate time a report will be prepared as to the success or failure of these recommendations and the need for additional staff.

Recommendation #7:

Request Information Services to program its automated system to compare the promised delivery date with the actual delivery date.

Response:

The Purchasing Division has been working with the Information Systems Department and this will be accomplished by December, 1986.

Recommendation #8:

Develop and distribute to Buyers and to departments a form for recording instances of poor vendor performance, including late deliveries.

Response:

Purchasing will implement this recommendation no later than December, 1986 after reviewing forms used by other jurisdictions and obtaining a supply of the selected form.

Recommendation #9:

Maintain a central file of complaints. The information on this file should be available to the Buyers and the City Council.

Recommendation #10:

Develop guidelines to determine when a vendor's performance should be reviewed.

Response to # 9 and 10:

General Services concurs with these recommendations, but feels they should be implemented on an automated rather than manual basis. Purchasing will be working with Information Systems to accomplish this change. No target date has yet been identified.

Recommendation #11:

Purchasing should take appropriate disciplinary action against vendors including suspension and debarment as a future supplier to the City.

Response:

General Services concurs with this recommendation and will implement as soon as the vendor performance system is in place to provide back-up documentation.

Recommendation #12:

Increase the number of direct shipments to Departments on a pilot basis. Purchasing should use several criteria for selecting them Departments to use for the pilot project. These criteria include the following:

1. The availability of store clerks;
2. Number of deliveries the department receives; and
3. The type of merchandise the department usually orders.

Recommendation #13:

Before initiating the pilot project, Purchasing should do the following:

1. Develop detailed receiving procedures for the departments on the timely processing of receiving documents;
2. Provide training to Departments on these procedures; and
3. Coordinate this project with the City Manager and the Directors of the departments involved to ensure adequate importance is given to complying with the receiving procedures.

Response to #12 and #13:

Purchasing will implement these recommendations, however, both the General Services and Finance Departments have grave reservations about shipping directly to departments. This has been tried many times and each time we have tried this procedure the packing slips (delivery tickets) are not returned to the Finance Department in time to obtain discounts or pay the bill.

When departments receive shipments, the correct receiving procedures are not adhered to, boxes are discarded, package counts are not noted on the delivery persons tags, purchase order numbers are not noted on packing slips. Sometimes, items are shipped back to vendors without any paperwork. Vendors call Purchasing and Accounting for payments and then the tracking personnel must try to locate the packing slips.

These problems cause the work load to shift from receiving to the Purchasing tracking person. If the events of the past are repeated, this recommendation will cause the Purchasing and Accounting Divisions additional work and will delay payments to the vendors.

Nevertheless, we will conduct a pilot project, because direct shipping would be a help if the receiving was performed correctly by departments. The steps proposed in Recommendations #12 may result in better success than occurred in the past.

Recommendation #14:

Analyze its Receiving workload to determine if it would be more cost effective to deliver some items such as business cards directly to Departments.

Response:

General Services concurs and will implement.

Recommendation #15:

Develop and maintain a log of shipments to be received at the Central Warehouse. This log should indicate the date of delivery, the type of shipment, and when the shipment was checked in.

Response:

This recommendation will be implemented, and will in fact insure that no shipment is overlooked. Ultimately, such a log may provide insight into and a means for a more efficient receiving and shipping process. Shipments are normally processed in the order received. Initially, staff time devoted to logging shipments will detract from speedy delivery, because the same number of staff will be performing an additional function.

Recommendation #16:

Take steps to eliminate the number of stores "walk-ins". These steps should include notifying departments that only emergency "walk-in" orders will be filled and limiting the number of hours each day that "walk-ins" will be accepted.

Response:

This recommendation will be implemented.

Recommendation #17:

Establish different goals for different types of purchases. Purchasing should establish these goals by 1) identifying all the steps involved in processing each type of requisition, and 2) determining the optimum time required to complete each step.

Response:

General Services Department agrees with this recommendation and will implement.

Recommendation #18:

Request Information Systems to make the following changes to its management reports:

1. Identify the number of the requisitions processed over established processing goals;
2. Modify its program to exclude only formal bids from the calculation of the average processing time; and
3. Include Accounting's time to encumber funds in the calculation of the average processing time.

Response:

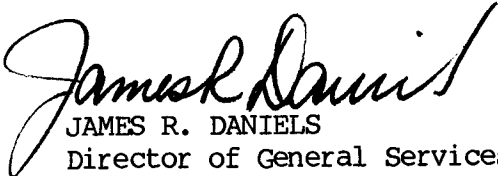
General Services concurs with this recommendation and will implement. Information Systems already has the request and has begun work.

In addition to the responses above, I wish to register disagreement with the \$40 million figure you quote as Purchasing's annual volume. There is no question that we handle a large volume of detail 52 expenses which you have excluded. In some cases contracts rather than purchase orders are issued, so that this work is not attributed to Purchasing. Recent examples of this include downtown shuttle buses, 9th Street sewer pipe, Water Pollution Control Plant boilers, and Airport modular units. There are also many open purchase orders for services charged to detail 52. Therefore, I do not believe that any accurate estimate of Purchasing's annual dollar volume can exclude detail 52 expenditures. Obviously, more work needs to be done so that we can have an accurate, on-going grasp of Purchasing's annual dollar volume of business.

Gerald A. Silva, City Auditor
RESPONSES TO DRAFT REPORT OF THE AUDIT OF
PURCHASING OPERATIONS

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In conclusion, I feel that the draft report represents a good product on the part of the Auditor's Office and that it does identify some real opportunities for improving our operations.


JAMES R. DANIELS
Director of General Services

jg(5585G)

cc: Ed Schilling
Emily Harrison
Tim Wei
Sam Gaetz

APPENDIX A

QUESTIONNAIRE ON THE QUALITY OF SERVICE PURCHASING PROVIDES TO DEPARTMENTS

Please fill in the blanks below so we can, if necessary, contact the person(s) completing the questionnaire.

Department _____

Division _____

Contact Person _____

Phone Number _____

Please complete the following questions. If you do not know the answer to any of the questions, please write "Do Not Know" in the space provided. If necessary, use the last two pages of the questionnaire to elaborate on or to clarify your response.

1. What is your understanding of how many work days Purchasing needs to process a purchase requisition. (Workdays from the time Purchasing receives a requisition to the time the Purchase order is mailed to the vendor) Please specify your answer for each of the following types of requisitions:

Work Days

Requisitions requiring formal bids _____

Requisitions requiring informal bids _____

Stores requisitions _____

2. What is your understanding of how many work days elapse from the time the purchase order is mailed to a vendor to the time the item is delivered to you?

Work Days

Requisitions requiring formal bids _____

Requisitions requiring informal bids _____

Stores requisitions _____

3. Does Purchasing complete your requests for purchases within the time frame you specified above? Please check one of the following:

	<u>Almost Never</u>	<u>Rarely</u>	<u>Sometimes</u>	<u>Frequently</u>	<u>Almost Always</u>
Formal Bids	—	—	—	—	—
Informal Bids	—	—	—	—	—
Stores					
Requisitions	—	—	—	—	—

4. When you specify a date that an item is needed, does Purchasing meet this date? Please circle one of the following:

Almost
Never Rarely Sometimes Frequently Almost
Always

5. How often does Purchasing respond to your urgent requests? Please circle one of the following:

Almost
Never Rarely Sometimes Frequently Almost
Always

6. If applicable please provide examples of items you have requested that Purchasing did not provide in a timely manner. If applicable, provide examples of each of the following types of purchases:

1. Formal Bid
2. Informal Bid
3. Emergency Purchase
4. Stores Requisitions

7. In the above examples, was your job performance hindered because you did not have the requested items on time? If so, please specify. If not, how were you able to do without the requested item?
8. Does Purchasing provide the correct item ordered, the correct number of items ordered, and items that are in good condition? Please check one of the following:

	<u>Almost Never</u>	<u>Rarely</u>	<u>Sometimes</u>	<u>Frequently</u>	<u>Almost Always</u>
Correct Item Ordered	—	—	—	—	—
Correct Number of Items	—	—	—	—	—
Items in Good Condition	—	—	—	—	—

9. If applicable, please provide examples of purchases which Purchasing did not 1) provide the correct item, 2) the correct number of items, or 3) items that were not in good condition.

10. When you identify problems with the quality or quantity of items purchased, do you notify Purchasing? If so;

Whom do you notify _____

Is corrective action taken (Circle) Yes No

If corrective action is taken, is it timely? (Circle)

Almost Never	Rarely	Sometimes	Frequently	Almost Always
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11. How often has Purchasing staff met with you directly during the last year? (Circle)

0 1-2 3-5 more than 5 unable to answer

12. How useful do you feel these meetings were? (Circle)

No Use	Minimally Useful	Moderately Useful	Very Useful	Extremely Useful
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13. Do you feel that more of these meetings would be useful?
(Circle)

No Help	Minimally Helpful	Moderately Helpful	Very Helpful	Extremely Helpful
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14. How often did you talk on the telephone with Purchasing
staff during the last year? (Circle)

0	1-5	6-10	11-20	More than 20	Unable to answer
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15. How helpful do you find these calls to be? (Circle)

No Help	Minimally Helpful	Moderately Helpful	Very Helpful	Extremely Helpful
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16. How long does it take Purchasing return your calls?
(Circle)

Not Returned	More than 5 working days	One to 5 working days	The same day	Within 4 hours
-----------------	-----------------------------	--------------------------	-----------------	-------------------

17. Are Purchasing's written procedures clear and easy to
follows? (Circle)

Not Clear	Minimally Clear	Moderately Clear	Very Clear	Extremely Clear
--------------	--------------------	---------------------	---------------	--------------------

18. Please specify the written procedures that are not clear
and easy to understand.

19. If you use the automated Purchasing Inquiry system, how
useful has it been to you? (Circle)

Not Useful	Minimally Useful	Moderately Useful	Very Useful	Extremely Useful
---------------	---------------------	----------------------	----------------	---------------------

20. If you do not use the system, why not?

21. Do you feel that Purchasing has saved you money during the last year?

Please provide some examples to support your response.
(Check)

Yes _____

No _____

22. If the petty cash limit was raised, to allow departments to purchase more items on their own, do you feel that this would be beneficial to your department? (Check)

Yes _____

No _____

If you answered yes, please explain.

23. Do you have staff available that could make these small purchases on a regular basis? (Check)

Yes _____

No _____

24. Do you have staff available that could receive items directly from vendors? (Check)

Yes _____

No _____

If yes, is this a function your department could assume?
(Check)

25. Several years ago, Purchasing had its own checking account which it used to purchase items under \$500. Do you feel that Purchasing provided better and faster service when it had the checking account?

If yes, please provide examples.

Yes _____

No _____

Do Not Know _____